

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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| AN AUDIT OF UNIVERSAL LOCAL |) | ADMINISTRATIVE |
| ACCESS SERVICE CHANNEL REPORTS |) | CASE NO. 316 |

O R D E R

INTRODUCTION

On April 30, 1987, the Commission released an Order in Case No. 8838¹ that authorized a ULAS² audit and the creation of a task force to supervise the audit. In addition, the task force was directed to consider and make recommendations to the Commission concerning the scope of the audit, audit criteria, refunds and credits based on audit results, audit funding, an audit agent, and other matters that may arise.³

AT&T Communications of the South Central States, Inc., ("AT&T"), the Attorney General of the Commonwealth of Kentucky, by and through his Utility and Rate Intervention Division ("Attorney General"), Cincinnati Bell Telephone Company ("Cincinnati Bell"), MCI Telecommunications Corporation ("MCI"), South Central Bell Telephone Company ("South Central Bell"), and US Sprint

¹ An Investigation of Toll and Access Charge Pricing and Toll Settlement Agreements for Telephone Utilities Pursuant to Changes to be Effective January 1, 1984. Phase II.

² Universal Local Access Service.

³ Order in Phase II of Case No. 8838, dated April 30, 1987, page 23.

Communications Company ("US Sprint") have notified the Commission of their interest in participating in this investigation as ULAS audit task force members. The Commission will grant full participation to these parties. In addition, the Commission will ask that each of these parties designate an individual with appropriate decision-making authority to serve as task force spokesperson and general point of contact for the purposes of this investigation. The Commission should be notified in writing of the name, address, and telephone number of the designated individual within ten days of the date of this Order.⁴

The Commission will designate Mary Anne Gill, Manager, Financial Audits Branch, Division of Rates and Tariffs, to act as task force chairperson and point of contact for any inquiries that the parties may have during this investigation. The staff members assigned to this investigation will act as a team and attempt to achieve a consensus among the parties on issues that must be resolved before an audit can be initiated. In areas where a consensus can be achieved, that recommendation should be made to the Commission. In areas where a consensus cannot be achieved, the Commission's staff should make a recommendation. In either case, the parties will be allowed to attach any dissenting opinions to a written report and recommendations that the staff will prepare and submit to the Commission, after review by the

⁴ The Commission will note that the designation of a spokesperson and point of contact is not intended to preclude the participation of technical support persons in formal and informal conferences or the use of expert witnesses in any public hearings that may occur.

parties. Upon submission, the Commission will enter its decision concerning task force recommendations and, at that point, entertain petitions for hearing on issues that the parties may wish to argue. Absent any petitions for hearing or subsequent to hearing, the Commission will authorize its staff to prepare a request for audit proposals. The parties will be permitted to review the request for audit proposals and recommend changes prior to its public release. Finally, the Commission will select an auditor from the responses it receives.

DISCUSSION

In order to begin this investigation, an informal conference will be scheduled on January 5 and 6, 1988, to consider issues relevant to the ULAS audit.⁵ Furthermore, in order to facilitate discussion, the parties are invited to file proposed agenda no later than November 20, 1987, consistent with the issues outlined in the introduction to this Order. The Commission's staff will compile an official agenda from the proposals that are received and serve it on the parties prior to the informal conference.

Also, in order to facilitate action in this investigation, the Commission will indicate tentative conclusions and decisions on certain points, as follows:

⁵ If additional time is necessary, it will be scheduled at the conclusion of the second day.

Scope of the Investigation

The ULAS audit may be structured to include all or some interLATA⁶ carriers. At this point, it is not contemplated that the audit will include an investigation of South Central Bell's actions as pool administrator.

The Commission tentatively concludes that the ULAS audit should proceed in stages, beginning with AT&T and moving to MCI, US Sprint, and Allnet Communications Services, Inc., as necessary. Such an order of audit recognizes the relative size of these carriers and the consequent impact of any misreporting on ULAS allocations. Also, it should allow a smooth audit process and may reduce audit costs. Nonetheless, the Commission will entertain other recommendations, such as, for example, a simultaneous audit of all interLATA carriers. However, any recommendations other than the Commission's tentative conclusion must be accompanied by persuasive argument.

Audit Criteria

The Commission contemplates that the parties will develop a set of definitions and other guidelines as necessary to conduct the ULAS audit. Also, the Commission will not offer guidance in this area beyond terms and definitions contained in the ULAS tariff and associated implementation procedures issued by the ULAS administrator.

⁶ Local Access and Transport Area.

Refunds and Credits

The Order of April 30, 1987, in Case No. 8838, conditioned any true-up "on the showing of ULAS channel count misreporting."⁷ The Commission will maintain this standard. However, beyond this standard, a number of subordinate issues may arise. For example, should some standard of materiality be applied before any true-up is ordered and should true-ups be ordered as each carrier is audited or only after all carriers are audited? The Commission has no tentative conclusions on these or other issues that may arise beyond the standard of misreporting.

Audit Funding

It is the Commission's tentative conclusion that the cost of the audit should be recovered from the interLATA carriers through ULAS charges. However, the Commission will entertain other recommendations, such as that each carrier finance the cost of its audit or that any carrier(s) seeking an audit of another carrier finance the cost of the audit. As above, any recommendations other than the Commission's tentative conclusion must be accompanied by persuasive argument. The Commission will not consider any recommendation that it finance any audit costs.

Other issues may arise under the topic of audit funding. For example, the timing and method of cost recovery may become issues. The Commission has no tentative conclusions on these or other issues that may arise in this area.

⁷ Order in Phase II of Case No. 8838, dated April 30, 1987, page 26.

Audit Agent

The Commission concludes that it should contract with a consultant to conduct the ULAS audit and will invite the parties to submit a list of recommended auditors at a later date.

Aside from this matter, the task force should consider and make recommendations concerning criteria that should be used to select a consultant and other matters relevant to this area. As above, the Commission has no tentative conclusions on this or other issues that may arise beyond the use of a consultant to conduct the audit.

Other Matters

The task force should consider and make recommendations on the implementation of a phase of discovery as a preliminary to the audit process. In the opinion of the Commission, a phase of discovery could serve to eliminate the need to audit certain items, leading to a more focused audit and narrowing the scope of the investigation. Such a result would benefit all parties to this investigation. Therefore, the task force should consider how a phase of discovery can be incorporated into this investigation.

A number of other issues may arise that the Commission has not previously contemplated and the parties are invited to raise additional issues.

FINDINGS AND ORDERS

The Commission, having considered the evidence of record and being advised, is of the opinion and finds that:

1. AT&T, the Attorney General, Cincinnati Bell, MCI, South Central Bell, and US Sprint should be granted full rights of participation in this audit.

2. Each party to this case should designate an individual with appropriate decision-making authority to serve as ULAS task force spokesperson and general point of contact, and notify the Commission in writing of this designation within ten days of the date of this Order.

3. The procedure outlined in the introduction to this Order concerning the actions of the ULAS audit task force, possible hearing of issues, and the preparation of a request for audit proposals should be adopted.

4. An informal conference should be scheduled on January 5 and 6, 1988, to consider ULAS audit issues and the parties should file proposed agenda no later than November 20, 1987, from which the Commission's staff will compile an official agenda.

5. The Commission should not finance the ULAS audit.

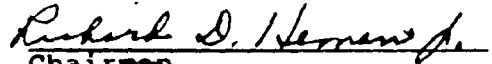
6. The Commission should contract with a consultant to conduct the ULAS audit.

7. The ULAS audit task force should consider how a phase of discovery can be incorporated into this investigation.

Accordingly, each of the above findings is HEREBY ORDERED.

Done at Frankfort, Kentucky, this 30th day of October, 1987.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director